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**A# 3/3/2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

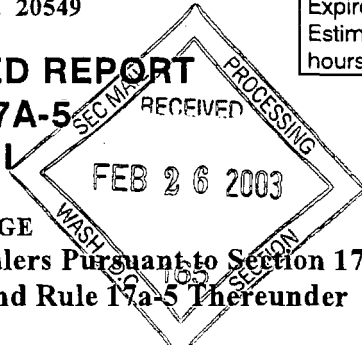
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ANNUAL AUDITED REPORT
FORM X-17A-5
PART III



FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/02 AND ENDING 12/31/02
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: **KESCO SECURITIES, CORP.**

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

38 BARKLEY CIRCLE

(No. and Street)

FORT MYERS

(City)

FLORIDA

(State)

33907

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

SCOTT FINE

(239) 481-5568

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

SCHULTZ, CHAIPEL & CO., LLP

(Name - if individual, state last, first, middle name)

12660 WORLD PLAZA LANE

(Address)

FORT MYERS

(City)

FLORIDA

(State)

33907

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
- ☐ Public Accountant
- ☐ Accountant not resident in United States or any of its possessions.

PROCESSED

MAR 12 2003

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THOMSON
FINANCIAL

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

03-11

OATH OR AFFIRMATION

I, SCOTT FINE, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of KESCO SECURITIES, CORP., as of DECEMBER 31, 2002, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

NONE



Cathy Howell

Notary Public

Scott Fine
Signature

PRESIDENT/TREASURER

Title

This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

****For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

KESCO SECURITIES CORP.

FINANCIAL REPORT

DECEMBER 31, 2002

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David L. Schultz, CPA*, ABV
Clifford Chaipel, CPA*
Martin A. Redovan, CPA*, CVA
Russell T. Baker, CPA*



*Regulated by the State of Florida

INDEPENDENT AUDITORS' REPORT

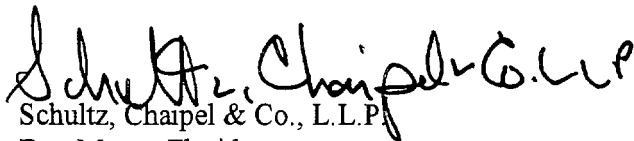
Board of Directors
Kesco Securities Corp.

We have audited the accompanying statement of financial condition of Kesco Securities Corp. (the Company) as of December 31, 2002, and the related statements of income, changes in stockholders' equity, changes in liabilities subordinated to claims of general creditors, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kesco Securities Corp. at December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule I and the net capital reconciliation, is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Schultz, Chaipel & Co., L.L.P.
Fort Myers, Florida
January 17, 2003

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KESCO SECURITIES, CORP.
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2002

ASSETS

Cash	\$	20,259
Commission receivable		98,287
Clearing deposit		50,000
Advance to independent contractor		21,795
Property and equipment		
Furniture and fixtures		8,980
Computer equipment		4,626
Telephone equipment		4,214
Accumulated depreciation		(5,949)
Other assets		2,454
Total assets	\$	<u>204,665</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

LIABILITIES	\$	-
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COMMITMENTS (Note 6)		-
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STOCKHOLDERS' EQUITY

Common stock, \$1 par value, 500 shares authorized, issued and outstanding		500
Additional paid in capital		49,150
Retained earnings		<u>155,015</u>
Total stockholders' equity		<u>204,665</u>
Total liabilities and stockholders' equity	\$	<u>204,665</u>

The accompanying notes are an integral part of these financial statements.

KESCO SECURITIES CORP.
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2002

REVENUES

Commissions	\$ 1,035,456
Interest income	<u>3,247</u>
	<u>1,038,703</u>

EXPENSES

Employee compensation and benefits	215,518
Clearance fees	189,530
Management and consulting fees	65,748
Administrative expenses	70,106
Professional fees	16,306
Computer and technology expenses	2,097
Depreciation	3,364
Interest expense	<u>3,335</u>
	<u>566,004</u>

Net income	<u>\$ 472,699</u>
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The accompanying notes are an integral part of these financial statements.

KESCO SECURITIES CORP.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE YEAR ENDED DECEMBER 31, 2002

	Common <u>Stock</u>	Additional Paid-In <u>Capital</u>	Retained Earnings <u>(Deficit)</u>	Total Stockholders' Equity <u>(Deficit)</u>
BALANCES, January 1, 2002	\$ 500	\$ 49,150	\$ (64,176)	\$ (14,526)
Net income	-	-	472,699	472,699
Stockholder distributions	<u>-</u>	<u>-</u>	<u>(253,508)</u>	<u>(253,508)</u>
BALANCES, December 31, 2002	<u>\$ 500</u>	<u>\$ 49,150</u>	<u>\$ 155,015</u>	<u>\$ 204,665</u>

The accompanying notes are an integral part of these financial statements.

KESCO SECURITIES, CORP.
CHANGES IN LIABILITIES SUBORDINATED
TO CLAIMS OF GENERAL CREDITORS
FOR THE YEAR ENDED DECEMBER 31, 2002

Subordinated borrowing at January 1, 2002	\$ 50,000
Increases:	-
Decreases:	<u>(50,000)</u>
Subordinated borrowing at December 31, 2002	\$ <u><u>-</u></u>

The accompanying notes are an integral part of these financial statements.

KESCO SECURITIES CORP.
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2002

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from commissions	\$ 964,996
Cash paid to employees, vendors and for transaction clearance	(605,237)
Interest paid	<u>(3,333)</u>
Net cash provided by operating activities	<u>356,426</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Cash advances to independent contractor	(21,795)
Cash paid for other assets	(1,615)
Purchase of property and equipment	<u>(9,249)</u>
Net cash used in investing activities	<u>(32,659)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments for stockholder debt	(50,000)
Stockholder distributions	<u>(253,508)</u>
Net cash used in financing activities	<u>(303,508)</u>

Net increase in cash	20,259
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CASH, beginning of year	<u>-</u>
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CASH, end of year	<u>\$ 20,259</u>
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**RECONCILIATION OF NET INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Net income	\$ <u>472,699</u>
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	3,364
Changes in assets and liabilities	
(Increase) decrease in:	
Commissions receivable	(73,707)
Increase (decrease) in:	
Accounts payable	(25,491)
Accrued expenses	<u>(20,439)</u>
Total adjustments	<u>(116,273)</u>
Net cash provided by operating activities	<u>\$ 356,426</u>

The accompanying notes are an integral part of these financial statements.

NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS

Kesco Securities Corp. (the Company) is a broker-dealer registered with the Securities and Exchange Commission (SEC) and the National Association of Securities Dealers (NASD). The Company is a Florida Corporation and has one office in Fort Myers, Florida. The Company uses a correspondent broker to clear all security transactions. The Company does not hold any securities for its own account or for any customers.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Securities Transactions

Commissions and costs associated with security transactions are recorded on the settlement date.

Income Taxes

The Company, with the consent of its stockholders, has elected to have its income taxed under Section 1362 of the Internal Revenue Code and a similar section of the Florida Income Tax Law (S Corporation election). These laws provide that, in lieu of corporate income taxes, the Company's taxable income will be passed through to the stockholders of the Company and taxed at the individual level.

Property and Equipment

The Company records its property and equipment at cost and depreciates such assets using the straight-line method over the estimated useful lives of the assets.

Upon sale or retirement of property and equipment, the cost and related accumulated depreciation is removed from the accounts and the difference between the carrying value and any proceeds realized on disposition is charged or credited to income.

Statement of Cash Flows

For purposes of the Statement of Cash Flows, the Company has defined cash equivalents as deposits subject to immediate withdrawal.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

NOTE 3 - CASH ON DEPOSIT WITH THE CLEARING ORGANIZATION

The Company has a \$50,000 deposit with the organization used for clearing transactions. This amount is not available for use in the Company's operations.

NOTE 4 - SUBORDINATED BORROWING

The Company had one borrowing under a subordination agreement with one of the Company's stockholders at December 31, 2001. The note was for \$50,000, interest at 8% payable monthly, and was due April 3, 2004. The Company obtained permission from the National Association of Securities Dealers to retire the note during 2002.

NOTE 5 - EMPLOYEE PENSION PLAN

The Company had a qualified, noncontributory defined benefit pension plan for the benefit of its employees in 2001. The Company terminated this plan in 2002, completely funded the 2001 contributions and distributed the funds to the effected employees.

NOTE 6 - COMMITMENTS

The Company has entered into a management contract with an entity owned by the Company's stockholders. This related entity provides all administrative and occupancy functions for a monthly fee. The amount paid under this agreement for the year was \$27,194.

NOTE 6 - COMMITMENTS (Continued)

The Company has entered into an agreement with its stockholders that provides the Company the first right of refusal if any stockholder wants to sell their shares. The agreement calls for a value to be placed on the Company shares by agreement of all stockholders. The value agreed to by the stockholders in 2002 is \$2,500 per share. Based on this value, the total commitment to the Company is \$1,250,000.

NOTE 7 - NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-(a)(2)(vi)), which requires a minimum net capital amount of \$5,000.

SUPPLEMENTARY INFORMATION

SCHEDULE 1

KESCO SECURITIES CORP.

AS OF DECEMBER 31, 2002

Computation of Net Capital under Rule 15c3-1 of the
Securities and Exchange Commission

Net Capital

Total stockholders' equity	\$ 204,665
Add liability subordinated to claims of general creditors allowable in computation of net capital	<u>-</u>
Total capital and allowable subordinated liabilities	204,665
Nonallowable assets	<u>36,120</u>
Net capital before haircuts on securities positions	168,545
All other adjustments	<u>-</u>
Net Capital	<u>\$ 168,545</u>

Computation of Basic Net Capital Requirement

Minimum net capital required (6-2/3% of aggregate indebtedness)	<u>\$ -</u>
Minimum dollar net capital reporting broker or dealer per Rule 15c3-1(a)(2)(vi)	<u>\$ 5,000</u>
Net capital requirement	<u>\$ 5,000</u>
Excess net capital	<u>\$ 163,545</u>
Excess net capital at 1000% (Net capital less 10% of aggregate indebtedness)	<u>\$ 168,545</u>

SCHEDULE 1

KESCO SECURITIES CORP.

AS OF DECEMBER 31, 2002

Computation of Net Capital under Rule 15c3-1 of the
Securities and Exchange Commission (Continued)

Computation of aggregate indebtedness

Total liabilities from the Statement of Financial Condition (net of subordinated liability)	\$ -
Add any adjustments	<u>-</u>
Total aggregate indebtedness	<u>\$ -</u>
Percentage of aggregate indebtedness to net capital	<u>0%</u>

SCHEDULE 1

KESCO SECURITIES CORP.

AS OF DECEMBER 31, 2002

Computation of Net Capital under Rule 15c3-1 of the
Securities and Exchange Commission (Continued)

Reconciliation Between the Audited Net Capital Amount
And the Previously Submitted Unaudited
Net Capital Amount

Equity amount per unaudited FOCUS report filed for the period 10/01/02 to 12/31/02	\$ 208,028
Adjustment to record depreciation	(3,364)
Rounding difference	<u>1</u>
Equity amount per audited financial statements	<u>\$ 204,665</u>



David L. Schultz, CPA*, ABV
Clifford Chaipel, CPA*
Martin A. Redovan, CPA*, CVA
Russell T. Baker, CPA*

*Regulated by the State of Florida

Board of Directors
Kesco Securities Corp..

In planning and performing our audit of the financial statements and supplemental schedules of Kesco Securities Corp. (the Company), for the year ended December 31, 2002, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by Rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.


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Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2002, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the NASD, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.


Schultz, Chaipel & Co., L.L.P.
Fort Myers, Florida
January 17, 2003